VIA ELECTRONIC AND U.S. MAIL

August 18, 2009

President Mark Yudof
University of California
1111 Franklin Street, 12th floor
Oakland, CA 94607-5200

Re: Budget Reduction Plan Realignment

President Yudof:

Today, unlike many days, we find ourselves similarly situated. We share a grave concern for the future of the University we've all worked so hard to build. As UC strives to maneuver through these economically trying times, we must choose our respondent actions with the utmost care. However, your unfolding course of action as President of our University—and now holder of sweeping emergency powers—is deeply concerning. I am writing today to raise a public alarm because thus far your response to the state budget situation unabashedly continues the misplaced spending priorities of UC—bad habits that are well documented in the public record. By continuing to prize buildings over people and executives over families who are just one step away from poverty, you are boldly demonstrating a lack of fitness to lead our beloved public university.

I am sure you would agree that UC should never gamble its core mission or put California's families at risk, especially for political reasons. Still, it is clear that you seek to balance the budget on the backs of low-wage workers and students, even as UC continues to maintain excellent financial health and continues to share its wealth with University executives. As I am sure you are aware, Moody's July 2009 credit assessment sustained the University's healthy Aa1/AA bond rating.[1] When considering UC's $20 billion budget, its myriad fund sources, and the decline in state revenue, Moody's even weighed in to say UC can "manage any likely level of reductions" and "deal with even

[1] Moody's Investors Services Global Credit Research. (2009, July 17). Moody's Affirms University of California's Aa1 General Revenue Bond Rating; Outlook is Stable.

the most dramatic short-term reductions in state support...."[2] Yet you are forcing a furlough on unrepresented workers while exempting the highest paid executives from bearing their fair share of sacrifice. This is unacceptable, and UC can do much better.

[2] Moody's Investors Services Global Credit Research. (2009, March 6). Moody's Assigns Aa1 Ratings to University of California's $834 Million General Revenue Bonds, 2009 Series O, P and Q.

I urge you to seriously consider the following emergency budget recommendations—ones that accurately reflect the priorities hard-working Californians require of our University. Specifically, we demand that UC prioritize core student and patient services, and seek fund redirection from those areas that can most withstand trimming. **These recommendations place UC's core mission over profit-hoarding, executive pay, and non-crucial perks.** These changes would herald a positive shift in priorities for UC—a shift that is necessary to fulfill the mission of a public university that is truly accountable to the public.

RECOMMENDED ALTERNATIVES AND PROJECTED SAVINGS

RECOMMENDATION	SAVINGS
REDUCE THE TOP 2% OF EARNERS	$220,000,000
USE SHORT-TERM BORROWING AS A STOP-GAP	$200,000,000
UTILIZE MEDICAL CENTER PROFITS	$100,000,000
RESTRUCTURE DEBT	$75,000,000
UTILIZE UNRESTRICTED INVESTMENTS	$50,000,000
CUT WASTEFUL SPENDING	$40,000,000

Reduce the top 2% of earners. Your current furlough plan compromises the University's mission and does not set an appropriate bar for executive sacrifice. In fact, your furlough plan goes to great lengths to shelter large amounts of executive pay from reductions (see Attachment 1). With executives receiving lavish pay boosts and perks, and Chancellors earning an average of 22% over their predecessors, it is not only sensible but necessary to demand a good-faith sacrifice from top earners. Applying reductions exclusively to the top 2% of earners—roughly 3600 individuals earning over $200,000 yearly—will free over $220 million to apply to critical needs.

ALTERNATIVE REDUCTION TIERS

SALARY BAND	ANNUAL COMPENSATION	REDUCTION	SAVINGS
1	$200,001 - $225,000	**18%**	$41,200,000
2	$225,001 - $250,000	**20%**	$34,100,000
3	$250,001 - $300,000	**22%**	$51,100,000
4	$300,001+	**24%**	$93,700,000

The University's receipt of American Reinvestment and Recovery Act funds necessitates an especially judicious approach to reigning in executive pay. UC compares itself to the private sector, yet private sector executives have had to forgo perks and bonuses after receiving public dollars. UC, on the other hand, claims it must continue the practice to "retain the best leaders."[3] In 2009—and even in the Regents meeting during which your furlough plan was presented and approved—dozens of large compensation packages, raises and perks have been apportioned for executives.[4] UC must stop disproportionate spending at the top end of the scale, and instead model restraint to become a leader on curtailing runaway executive pay.

Contrary to your recent misrepresentation that unionized employees are "sitting pretty well," earning at least $40,000 yearly, many of our members now earn the new UC minimum wage of $12 hourly, or $24,000 annually when working full-time. According to the California Budget Project, a parent providing for two children requires roughly $50,000 – $60,000 annually to sustain a modest living without "extras" such as emergency savings.[5] By levying reductions on UC's low-wage

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[3] Gould, R. S. (2009, August 14). *UC must retain the best leaders.* Retrieved August 12, 2009, from San Francisco Chronicle: http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/08/11/EDIP196JU1.DTL

[4] University of California Regents' Committee on Compensation. (2009, July 16). *Approval of Individual Compensation Actions as Discussed In Closed Session.* Retrieved August 14, 2009, from Regents of the University of California: http://www.universityofcalifornia.edu/regents/regmeet/jul09/c2.pdf

employees, you are putting the well-being of thousands of California families at stake.

A senior custodian with seven years of service at UCSD puts it this way:

> *The cuts could mean that I won't be able to put food on the table, and I am worried that we may even lose our apartment. Even though the executives are taking small cuts, it doesn't affect them like it affects us.*

Under your plan, workers just beginning to take steps out of poverty are now at risk of being pushed over the brink, and in some cases pushed out onto the street. As you know, this will ultimately cost the state and county more in public dollars.

Use short-term borrowing as a stop-gap. UC must do all within its power to use borrowing and/or one-time funds as a stop-gap and not as a gambling chip. It was recently reported that the University is issuing commercial paper to lend the State of California $200 million in an aribtrage deal.[6] If you believe the University's budget situation to be a crisis—and you have said so to justify assuming unprecedented "emergency powers"—then this is an exceptional circumstance under which the University should apply its ability to utilize short-term borrowing to protect core services. The millions saved by avoiding lawsuits that can result from unsafe campus and medical conditions is more than comparable to the roughly $9 million the University stands to gain from its pending arbitrage deal with the state.

A recent survey of UC service workers across California found that, even without furloughs, many campuses are already suffering the effects of understaffing. Workers who provide critical student and patient care services believe serious health and safety consequences will result from additional cuts. **86% of those surveyed said service**

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[5] California Budget Project. (2007, October). *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* Retrieved August 6, 2009, from http://www.cbp.org/pdfs/2007/0710_mem_003.pdf

[6] Asimov, N. (2009, August 5). *UC to lend state millions to kick-start plans.* Retrieved August 6, 2009, from San Francisco Chronicle: http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/08/06/BAGK1942B2.DTL

worker understaffing is currently contributing to health and safety risks for students, faculty, and others. 94% said furloughs will worsen these risks on the campuses.

Understaffing and service cuts have a concrete impact on the health and safety of our community members. A UCSF gardener with five years of service described a recent injury:

> *My crew is down to only 4 people doing the work that used to be done by a dozen workers. Having so few staff to maintain the grounds means each of us must do the work multiple people used to do.*
>
> *We were recently down a Gardener and one of my coworkers got hurt when she slipped on some leaves that hadn't been cleared. We were just too busy trying to keep up with other assignments. I'm concerned that more injuries will come if we're forced to work with less and less staff.*

Students have also taken note of the effects of understaffing. According to UCLA sophomore Dieu Huynh:

> *The campus runs very smoothly thanks to the hard work of the service workers. Unfortunately, UC has already laid people off and students notice the difference. Plus, student workers do many of these jobs, and we know we have to compromise quality to fill in the gap when someone gets laid off. This has to stop. We must keep the campus working by keeping our workers working.*

Utilize medical center profits. UC's five medical centers made significant profit gains in 2009. According to UCSF CEO Mark Laret, in FY 2009 that campus "completed its most successful year in its history" and "exceeded [the] outstanding level goal… with a bottom line that may exceed $100 million this year."[7] Other medical centers indicated similar successes for the three quarters ending March 31, 2009, reporting $171 million in profits—55% higher than budgeted for the first three quarters of FY 2009—while UCSF has already reported their

[7] Laret, M. R. (2009, July 10). Update from the CEO.

numbers improve when factoring the final quarter.[8] Assuming *sustained* (as opposed to improved) financial performance for the final quarter of FY 2009, UC medical centers will have netted over $200 million in profits in the most recent fiscal year.

[8] University of California Office of the Vice President. (2009, March 31). *University of California Medical Centers Quarterly Report for the Nine Months Ended March 31, 2009.* Retrieved August 14, 2009, from University of California Financial Reports: http://www.universityofcalifornia.edu/finreports/index.php?file=/med_ctr/qtrly_rpts/mcq0309.pdf

Another indication of success for the medical centers is the strong 5.2% average operating margin for the first three quarters of FY 2009.[9] California's hospitals have averaged less than 1% over the last five years reported.[10] If UC tapped into medical center profits above a 3% operating margin, this would free roughly $100 million for UC's general operations.

UC budget documents show precedent for using medical center assets to meet critical needs in the University's general operating budget during the state budget shortfalls of FYs 1993-1995.[11] At the time, the University was experiencing cuts in its operating budget, while the academic medical centers were experiencing modest gains.

Restructure debt. We support the University's efforts to restructure a portion of its bond debt service, and believe UC should continue with its plans to save $75 million through such means.[12]

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[9] University of California Office of the Vice President. (2009, March 31). *University of California Medical Centers Quarterly Report for the Nine Months Ended March 31, 2009.* Retrieved August 14, 2009, from University of California Financial Reports: http://www.universityofcalifornia.edu/finreports/index.php?file=/med_ctr/qtrly_rpts/mcq0309.pdf

[10] Office of Statewide Health Planning and Development. (2009, March). *Annual Financial Data*. Retrieved August 14, 2009, from OSHPD Healthcare Information Division: http://www.oshpd.state.ca.us/HID/Products/Hospitals/AnnFinanData/PivotProfles/default.asp

[11] University of California Office of the President. (1996, October). *1997-98 Budget for Current Operations*. Retrieved August 14, 2009, from UCOP University Budget Office: http://www.ucop.edu/budget/rbudget/199798/1997-98budgetforcurrentoperations.pdf

[12]

[?] University of California Office of the President. (2009, July 15). *Recommendation for Declaration of Financial Emergency and Approval of Budget Reduction Actions.* Retrieved August 10, 2009, from Regents of the University of California: http://www.universityofcalifornia.edu/regents/regmeet/jul09/j2.pdf

Utilize unrestricted investments. UC holds a massive, $8.5 billion combined investment portfolio.[13] These funds consist of highly liquid assets in the Short-Term Investment Pool (STIP), and longer-term investments in the Total Return Investment Pool (TRIP). If UC borrowed 1% of the unrestricted cash balances in its combined investment portfolio, more than $70 million would be freed to deal with critical operational needs. By comparison, $50 million is a modest amount that leaves space to repeat such an action if necessary in coming years.

Although UC earmarks these funds for programs, and some portion is attributable to endowment money, some portion is discretionary and put to uses of the Regents' and your choosing. Almost $600 million in unrestricted funds has come out of the STIP to fund the University's Mortgage Orientation Program—the low-interest loan program available to the 300+ executives of the Senior Management Group and UC's tenured faculty. As recently as last November, the Regents authorized your proposal to allocate up to **$1.4 BILLION of unrestricted investment portfolio funds** for the Mortgage Orientation Program.[14] The $800 million balance of unused funds reserved for the Mortgage Orientation Program could alone offset 98% of the state's two-year reduction to UC general funds revenue. Maintaining core operations at the University is at least as important as this priority.

According to the University's budgeting documents, there is precedent for using investment funds to help meet a state budget shortfall. In FY 1993, the University and the State of California turned to the University's STIP to alleviate some of the University's budgetary

[13] University of California Financial Management. (2008, October 10). *Annual Financial Report 2007-2008.* Retrieved August 14, 2009, from University of California Financial Reports: http://www.universityofcalifornia.edu/finreports/index.php?file=/07-08/pdf/fullreport_08.pdf

[14] University of California Office of the President. (2008, November 19). *Authorization for Borrowing from Combined Investment Portfolios of the Short-Term Investment Pool and the Total Return Investment Pool.* Retrieved August 14, 2009, from Regents of the University of California: http://www.universityofcalifornia.edu/regents/regmeet/nov08/f9.pdf

problems. STIP assets funded $43 million of a shortfall in the University's operating budget that year.[15]

Cut wasteful spending. UC must cut non-crucial spending—including but not limited to renovations of UC mansions, executive rentals of non-UC property, non-crucial travel, and consultants' contracts—before any consideration of cutting vital services.

These executive perks and filler are subordinate to preserving the University's core operations, and protecting UC's most vulnerable community members. Once again, the University's receipt of American Reinvestment and Recovery Act funds should trigger an appropriate rollback of excessive spending in non-core areas.

We would very much appreciate the opportunity to further discuss non-core spending in particular. I trust that in the spirit of an open dialogue, you will use your leadership to bring the University in compliance with our union's nearly year-old California Public Records Act request for campus expenditure information, which we have been forced to pursue through legal action.

In closing, I sincerely hope the issues flagged above will prompt an honest accounting between the University and the public it serves, and stimulate more responsible and creative efforts to meet the public's needs during California's financial crisis. Time is of the essence and I urge you to ensure these recommendations are considered with swiftness, seriousness, and due diligence. I look forward to your timely response.

Sincerely yours,

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[?] University of California Office of the President. (1996, October). *1997-98 Budget for Current Operations*. Retrieved August 14, 2009, from UCOP University Budget Office: http://www.ucop.edu/budget/rbudget/199798/1997-98budgetforcurrentoperations.pdf

Lakesha Harrison,
President

LH/dw

Enclosures (2)

ATTACHMENT 1

OUTLINE OF EXECUTIVE EXEMPTIONS IN THE APPROVED FURLOUGH PLAN

Failure to reduce bonus pay.
ADDITIONAL SAVINGS: $65 MILLION

Under the approved Furlough/Salary Reduction Plan (July 16, 2009), only base pay is reduced. This works to the advantage of high earners, shielding significant amounts of their income from the reduction plan. This leaves over $900 million in extra pay (additional compensation and allowances, excluding overtime) protected from the reduction plan. Over 75% of this protected pay goes to workers who make more than $90,000 yearly, 15% goes to the top 0.4% of earners in UC. Protecting this pay from reductions blatantly and unfairly advantages high-wage workers at the cost of vital services at UC.

Failure to determine tier placements based on gross pay.
ADDITIONAL SAVINGS: $16 MILLION

Not only is bonus pay shielded from reductions, the tiers themselves are based upon "base pay, similar forms of regular pay and stipends," thus skewing them to the advantage of employees receiving astronomical amounts of extra pay. A number of high-earning employees may earn modest base salaries, but gross significant or majority amounts of income that are categorized as non-base and non-overtime pay. These employees are shielded doubly by being placed in a lower-than-appropriate reduction tier, and by having their extra pay exempted from reduction.

Failure to incorporate sufficient tiers at the top end of the scale, and failure to set an appropriate cap for high earners.
ADDITIONAL SAVINGS: $37 MILLION

The approved reduction plan caps reductions at 10% for employees earning over $240,000 in base pay yearly. This proposed reduction plan poses a minimal effort at accountability for UC's highest earners. Even taking the approved Furlough/Salary Reduction Plan as the basis, and adding five additional tiers topping out at 20% for the roughly 2,000 employees making above $240,000 yearly, would bring tens of millions in additional savings to the system.

If President Yudof's current furlough plan were modified to incorporate the three principles above, the compound effect would result in an

additional <u>$131.5</u> <u>MILLION</u> in savings to the UC system, $120 million of which would come directly from top-earners making over $180,000 yearly.